

**MACON RIDGE
ECONOMIC DEVELOPMENT REGION, INC.
FINANCIAL REPORT
DECEMBER 31, 1991**

MACON RIVER ECONOMIC DEVELOPMENT REGION, INC.

FINANCIAL REPORT
DECEMBER 31, 2000

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MARTIN, HARRISON & SMALLWOOD, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

April 26, 2002

The Board of Directors
Macon Ridge Economic Development Region, Inc.
Terrebonne, Louisiana

We have audited the accompanying balance sheet of Macon Ridge Economic Development Region, Inc., a Nonprofit Corporation as of December 31, 2001, and the related statements of support, revenue, expenses and changes in fund balances, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Macon Ridge Economic Development Region, Inc. as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Martin, Harrison & Smallwood, LLP

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

BALANCE SHEET
DECEMBER 31, 2001

ASSETS	OPERATING FUNDS	
	UNRESTRICTED	RESTRICTED
Cash	13,800	2,948
Certificates of Deposit	-	-
Grants receivable	-	309
Contracts receivable	-	48,131
Interest receivable - loans	-	-
Other receivables	9,188	-
Insured receivables	-	-
Loans receivable	-	-
Intermediary Relending Program, net of allowance for loan losses of \$170,385	-	-
Rural Business Enterprise Grant Program, net of allowance for loan losses of \$72,160	-	-
Property and equipment, net	3,291	791,843
TOTAL ASSETS	22,460	443,279
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	-	23,418
Accrued liabilities	1,579	7
Compensated absences	-	9,294
Interfund payables	12,600	9,691
Notes payable	-	-
Total current liabilities	14,179	42,380
Notes payable, long current portion	-	-
TOTAL LIABILITIES	14,179	42,380
FUND BALANCES	8,281	400,899
TOTAL LIABILITIES AND FUND BALANCES	22,460	443,279

The accompanying notes are an integral part of these financial statements.

<u>LOAN PROGRAMS</u>	<u>TOTAL</u>
331,973	343,899
370,890	370,000
-	330
-	48,151
133,456	133,456
380	5,489
22,281	22,281
1,157,140	1,157,140
457,464	457,464
<u>2,000</u>	<u>387,137</u>
<u>2,434,577</u>	<u>2,940,506</u>

-	33,438
566	2,152
-	9,254
-	22,081
<u>65,054</u>	<u>65,054</u>
65,620	122,179
<u>1,793,578</u>	<u>1,795,578</u>
1,861,198	1,817,797
<u>812,379</u>	<u>1,033,559</u>
<u>2,434,577</u>	<u>2,940,516</u>

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF SUPPORT, REVENUE, EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2021

SUPPORT AND REVENUE	OPERATING FUNDS	
	UNRESTRICTED	RESTRICTED
Grants:		
Enterprise Community Program	-	85,380
Contracts:		
Louisiana Department of Economic Development- Cooperative Endowors	-	263,434
Contributions	906	23,655
Interest income	13	51
Loan interest income	-	-
Loan servicing income	1,560	-
Loan application and origination fees and penalties	73	-
Miscellaneous income	173	2,482
Total support and revenue	<u>2,722</u>	<u>371,902</u>
EXPENSES		
Programs:		
Grants programs:		
Enterprise Community	-	91,696
Renewal Community	-	17,473
Loan programs	-	-
Other programs	<u>1,367</u>	<u>176,579</u>
Total programs	1,367	394,747
Management and general	<u>25,347</u>	<u>490</u>
Total expenses	<u>36,714</u>	<u>395,237</u>
EXCESS (DEFICIT) OF SUPPORT AND REVENUE OVER EXPENSES	(34,082)	(17,530)
FUND BALANCES - BEGINNING OF YEAR	<u>12,491</u>	<u>418,719</u>
FUND BALANCES - END OF YEAR	<u>8,281</u>	<u>400,889</u>

The accompanying notes are an integral part of these financial statements.

<u>LOAN PROGRAMS</u>	<u>TOTAL</u>
-	88,901
-	288,414
-	24,155
27,092	27,348
186,452	186,452
-	1,560
11,632	11,724
-	3,660
<u>228,176</u>	<u>628,435</u>
-	97,664
-	17,475
182,349	182,349
-	<u>248,907</u>
182,349	182,473
1,612	<u>29,249</u>
<u>183,961</u>	<u>810,721</u>
37,215	(4,287)
<u>576,166</u>	<u>1,826,848</u>
<u>613,379</u>	<u>1,822,559</u>

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2001

	PROGRAM SERVICES		
	ENTERPRISE COMMUNITY	RENEWAL COMMUNITY	LOAN
Bad debt expense	-	-	4,382
Computer expenses	219	-	283
Contract labor	360	158	351
Consulting fees	10,213	10,608	-
Depreciation	8,551	-	859
Dues and subscriptions	166	-	-
Equipment acquisitions (under \$1,000)	-	-	320
Equipment and building maintenance	808	-	1,602
Wages/benefits	15,404	-	28,894
Insurance	-	-	1,566
Interest	-	-	18,226
Other	3,825	123	889
Postage	344	148	683
Printing	72	148	848
Professional fees	3,812	-	18,781
Provisional	28	-	277
Provision for loan losses	-	-	31,651
Rent - building and equipment	20	-	1,488
Salaries and wages	30,158	-	62,045
Sanitation	182	-	381
Supplies	738	281	3,083
Taxed	3,283	3,908	3,683
Utilities	1,194	23	8,451
	<u>62,694</u>	<u>12,473</u>	<u>185,360</u>

The accompanying notes are an integral part of these financial statements.

SUPPORTING
SERVICES
MANAGEMENT
AND

OTHER	GENERAL	TOTAL
-	-	4,382
1,183	2,506	4,347
-	-	999
809,892	-	128,583
12,787	3,598	23,737
977	1,263	2,408
187	117	934
619	406	3,623
31,408	827	68,628
435	2,872	4,473
-	282	18,508
3,100	1,456	8,593
125	428	1,647
528	177	1,357
35	2,648	15,466
-	358	893
-	-	31,841
386	467	2,277
801,036	3,913	232,198
900	532	1,875
482	1,432	3,918
11,871	3,852	27,351
9,781	1,312	29,148
285,927	29,248	619,721

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001**OPERATING ACTIVITIES**

Excess (deficit) of support and revenue over expenses	(4,383)
Adjustments to reconcile excess of support and revenue over expenses to net cash provided by (used in) operating activities:	
Depreciation	25,713
Provision for loan losses	31,611
Bad debts	4,382
(Increase) decrease in:	
Grants receivable	24,623
Contracts receivable	(21,007)
Other receivables	(3,468)
Loan interest receivable	(48,188)
Increase (decrease) in:	
Accounts payable	(1,389)
Accrued liabilities	1,478
Net cash provided by (used in) operating activities	<u>13,548</u>

INVESTING ACTIVITIES

Purchase of certificates of deposit	(370,800)
Redemption of certificates of deposit	489,147
Loans made to others	(774,745)
Payments received on loans to others	482,820
Purchases of equipment and leasehold improvements	(7,173)
Net cash provided by (used in) investing activities	<u>(196,799)</u>

FINANCING ACTIVITIES

Loan proceeds - Intermediary Relending Program	183,625
Payment of loan - Intermediary Relending Program	(84,683)
Net cash provided by (used in) financing activities	<u>119,004</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

268,338

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR30,341**CASH AND CASH EQUIVALENTS AT END OF YEAR**315,679**SUPPLEMENTAL DISCLOSURE
OF CASH FLOW INFORMATION**

Cash paid during the year for:

Interest	<u>17,680</u>
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DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statement of cash flows, the Company considers all highly liquid debt purchased with a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Macon Ridge Economic Development Region, Inc. (the Corporation) is a nonprofit organization whose membership consists of municipalities and economic development organizations located in northeast Louisiana. The Corporation's mission is economic development, industrial recruitment and retention, and job creation.

In December, 1994, the Corporation's application for a rural Enterprise Community was approved by the United States Department of Agriculture (USDA). Approval as an Enterprise Community was coupled with a three-year USDA grant in the amount of \$2,950,000. In 1998 this contract was renewed for an additional three years of operations. The purpose of the Enterprise Community program is to implement a strategic plan formulated for revitalizing the economy of portions of five parishes within the Corporation's domain.

USDA also approved a \$2,000,000 loan to the Corporation to establish a revolving loan fund for business and economic development within the Enterprise Community, as well as throughout the Corporation's entire area. In May, 2001, an additional \$750,000 loan was approved to further fund this revolving loan program. These loans were obtained through USDA's Intermediary Lending Program.

In August, 1995, the USDA approved a \$200,000 Rural Business Enterprise Grant to operate a small business loan program solely for the Enterprise Community. Two additional \$300,000 grants were approved in March, 1998 and April, 2001 to continue this program.

Periodically, the Corporation implements, on a contractual basis, other programs designated for economic and industrial development and job training.

BASIS OF ACCOUNTING AND PRESENTATION

The financial statements of the Corporation have been prepared on the accrual basis of accounting.

For financial reporting purposes, the provisions of Governmental Accounting Standards Board Statement No. 29, The Use of Not-for-Profit Accounting and Financial Reporting Principles by Government Entities (GASB No. 29) apply to the Corporation. GASB No. 29 requires the Corporation to follow the financial statement presentation guidance of AICPA Statement of Position 78-18, Accounting Principles and Reporting Practices for Certain Nonprofit Organizations (SOP 78-18). Accordingly, the accounts of the Corporation are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. The assets, liabilities and fund balances of the Corporation are reported in two self-balancing groups as follows:

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Operating funds include unrestricted and restricted resources available for support of the Corporation's operations.
- Loan Program Funds include resources restricted for the Corporation's lending programs.

PERVASIVENESS OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level which, in Management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on Management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, Management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment having estimated useful lives greater than one year are recorded at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment.

Maintenance and repairs are charged to operations; significant improvements are capitalized. The cost and related accumulated depreciation of assets retired or otherwise disposed are eliminated from the accounts and the resulting gain or loss is included in income.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain property and equipment are restricted as to use and disposition by grant agreements and by contractual agreements.

EXPENSE ALLOCATION

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Support, Revenue, Expenses and Changes in Fund Balances and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

INCOME TAX STATUS

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

TOTAL COLUMNS

Total columns are presented to facilitate financial analysis. Data in these columns do not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

Cash at December 31, 2001, consisted of the following:

General fund - operating	10,994
Enterprise Community Program - operating	3,086
Intermediary Relending Program (loan program)	311,738
Rural Business Enterprise Grant Program (loan program)	20,245
Rural Business Enterprise Grant Program (building renovation fund)	2,948
	<u>348,999</u>

Certificates of Deposit at December 31, 2001, consisted of the following:

Intermediary Relending Program (loan program)	560,000
Rural Business Enterprise Grant Program (loan program)	10,000
	<u>570,000</u>

Cash and certificates of deposit in the Intermediary Relending Program accounts are restricted for lending purposes, for the program's administrative costs and for repayment of the debt to USDA. Cash and certificates of deposit in the Rural Business Enterprise Grant Program loan accounts are restricted for lending purposes and for the program's administrative costs. Cash in the Rural Business Enterprise Grant Program building renovation fund is restricted for renovation purposes.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 3 - GRANT RECEIVABLE - ENTERPRISE COMMUNITY PROGRAM

Grants receivable include un reimbursed costs in the amount of \$238 incurred in operating the Enterprise Community Program. The Enterprise Community grant receivable is due from the Louisiana Department of Social Services, Office of Community Services (OCS), which is the contracting agency for the Enterprise Community Program in the State of Louisiana.

NOTE 4 - LOANS RECEIVABLE

During 1996, the Corporation began making loans to business entities through USDA's Intermediary Relending Program. Under this program, loans of up to \$150,000 may be made to business entities in the Corporation's eleven-parish operational area. A maximum of twenty-five percent (25%) of the total loan portfolio may be loans of up to \$250,000 to recipients who qualify. Loan recipients are required to fund twenty-five percent (25%) of their approved project costs.

At least sixty percent (60%) of the initial \$2,000,000 and seventy-five percent (75%) of the additional \$750,000 Intermediary Relending Program funds available must be loaned to businesses within the Enterprise Community, and a maximum of forty percent (40%) and twenty-five percent (25%), respectively, of the funds available may be loaned to businesses outside of the Enterprise Community.

During 1998, the Corporation began making loans to business entities under the Rural Business Enterprise Grant Program. This program allows loans of up to \$25,000 to be made to businesses within the Enterprise Community.

Principal payments and interest received on loans made under the Intermediary Relending Programs can be used only for payment of the debt to USDA; payment of reasonable administrative costs of the programs; and relending purposes. Principal payments and interest received on loans under the Rural Business Enterprise Grant Programs can be utilized only for the payment of reasonable administrative costs and relending purposes.

NOTE 5 - PROPERTY, EQUIPMENT AND DEPRECIATION

The major classes of owned property and equipment at December 31, 2001, are summarized below:

CLASS	
Building	270,999
Land	82,900
Furniture and fixtures	9,094
Equipment	166,574
Building improvements	96,866
	<u>626,333</u>
Less accumulated depreciation	<u>(4,168,426)</u>
Net property and equipment	<u>\$37,127</u>

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 6 - NOTE PAYABLE

The note payable represents the balance due to USDA at December 31, 2001, for the total amount of funds borrowed from USDA under the Intermediary Lending Program.

In accordance with the first loan agreement, up to \$2,000,000 may be borrowed by the Corporation for relending purposes to business entities within its eleven parish operational area. Interest at a rate of 1.00% is accrued on the outstanding balance. Beginning in December, 1998 the Corporation began making an annual principal and interest payment of \$82,360, and this annual payment is to continue until the note matures in December, 2005.

In accordance with the second loan agreement, up to \$750,000 may be borrowed by the Corporation for relending purposes to business entities within its eleven parish operational area. Interest at a rate of 1.00% is accrued on the outstanding balance. The Corporation will make annual interest only payments for the first three years, and then begin making annual principal and interest payments beginning October, 2003 and continue until the note matures in October, 2031.

The notes payable are collateralized by an Assignment of Security Interest for each loan made that is collateralized by personal property. Also, the notes payable are collateralized by an Assignment of Mortgage for each loan made that is collateralized by real estate.

Interest expense for the year ended December 31, 2001 totaled \$18,216.

NOTE 7 - FINANCIAL INSTRUMENTS

CONCENTRATION OF CREDIT RISK

The Corporation operates its Enterprise Community Program under a cost reimbursement contract which results in amounts due from OCS at various times during the performance of the contract. See Note 3.

Generally, the Corporation operates its other contractual programs on a cost reimbursement basis.

The Corporation maintains cash balances at several financial institutions located in Northeast Louisiana. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000, plus collateral held by the pledging banks or their agents with a market value of \$208,534. At December 31, 2001, the Corporation's uninsured cash balances totaled \$0.

COLLATERALIZATION POLICY

Unless otherwise disclosed, the Corporation does not obtain collateral or other security to support financial instruments subject to credit risk.

MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 8 - EMPLOYEE PENSION PLAN

The Corporation has established a Pension Plan for its employees in accordance with Section 409(b) of the Internal Revenue Code. The Corporation contributed \$28,083 to the Plan during 2001.

NOTE 9 - RELATED PARTIES

The Corporation has entered into transactions with their affiliates (Related Parties). Such transactions were made in the ordinary course of business on the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The loans made to Related Parties are interim construction loans for affordable housing projects. Macon Ridge Community Development Corporation secured approval for permanent financing prior to the Corporation making these interim loans. The Corporation has obtained written permission from the United States Department of Agriculture to make these Related Party loans.

The aggregate amount of loans to such related parties at December 31, 2001, was \$81,068. During 2001, new loans to such related parties totaled \$40,368 and there were repayments of \$22,125. As of December 31, 2001, three of these five loans were extended past their maturity dates and continuing to accrue interest and late fees. It is anticipated that construction will be complete and permanent financing will be secured by no later than June 4, 2002.

NOTE 10 - SUBSEQUENT EVENTS

The Community Renewal Tax Relief Act of 2000 established the Renewal Community (RC) initiative, which is a new kind of partnership among Federal, State and local governments, local businesses, and community organizations to stimulate economic development in the Nation's most distressed communities.

This Act authorized the designation of forty (40) Renewal Communities within the United States. In January of 2002, Louisiana received four of these designations. Based on the language of the Act, any area that was previously designated as an Enterprise Community and is appointed the designation of a Renewal Community, then the Enterprise Community ceases to be in effect. Consequently, as of January 1, 2002, the Enterprise Community status of Macon Ridge Economic Development Region, Inc. ceased to exist.

Subsequent to December 31, 2002, the Corporation received USDA approval to make loans through the Intermediary Lending Program totaling \$140,000. Total funds received to date were \$140,000.

MARTIN, HARRISON & SMALLWOOD, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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801 SHERRY STREET, SUITE A - BILBO, LA 70001 - (504) 436-6400

April 30, 2002

To the Senior Management and
The Board of Directors of
Macon Ridge Economic Development Region, Inc.

In planning and performing our audit of the financial statements of Macon Ridge Economic Development Region, Inc. (the Corporation) for the year ended December 31, 2001, we considered the Corporation's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated April 30, 2002, on the financial statements of Macon Ridge Economic Development Region, Inc.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Internal Controls

Findings: During the course of our audit, it came to our attention that management was unaware of the requirement to provide copies of the Corporation's Bylaws and financial information to the public when requested.

Recommendation: The Corporation should keep several copies of their bylaws readily available in a centralized location, such as the corporation's desk near the lobby, in the event that they are requested. Also, if a request is received by mail, the Corporation should promptly respond by mail. Any request for financial information could be handled by making copies of the requested information.

To the Senior Management and
The Board of Directors of
Macon Ridge Economic Development, Inc.
April 30, 2002
Page 2

Findings: The loan agreements utilized in the Corporation's two loan programs (Intermediary Relending Program and Rural Business Enterprise Grant Program) require that each borrower and the Corporation meet certain financial and non-financial covenants. It was noted during the audit that in some instances procedures had not been performed by the Corporation to ascertain whether these financial and non-financial covenants were met.

Recommendation: Management of the Corporation should assign to an employee of the Corporation the responsibility of monitoring each borrower's compliance with the financial and non-financial covenants of the borrower's respective loan agreement. Furthermore, the Corporation should develop a program for the continual monitoring of the borrower's compliance with the loan covenants and maintain adequate documentation of each borrower's compliance or lack of compliance with the loan covenants. Specific examples of these findings follow.

Loan Program Covenants - Insurance Policies

The Corporation's loan agreements contain a covenant that requires the borrower to carry property and life insurance for the life of the loan. There were instances where, at the discretion of the loan administrator, the requirement for life insurance was waived. For these special cases, the Corporation should have documentation in the file regarding the reason for this decision and its approval by the loan committee.

Loan Program Covenants - Financial Statements

The Corporation's loan agreements contain a covenant that requires the borrower to submit a copy of their tax return prepared by a tax professional annually. However, there were instances in the current year where loan recipients did not submit copies of their current tax returns. The Corporation should make a concerted effort to obtain copies of annual tax returns by notifying loan recipients, where necessary, that failure to comply with their loan agreement results in the loan being in default. The Corporation should keep documentation regarding their efforts in obtaining copies and for loan recipients' responses.

Loan Program Covenants - Intermediary Relending Program

The Corporation is putting some of the revolved loan funds into Certificates of Deposit, rather than relending the funds. We understand that it is desirable to have a small amount of money reserved for the administration of the program and the annual loan payment to the USDA. However, at year-end, there was \$480,000 in CD's designated as Intermediary Relending Program funds, which is much more than necessary for administration and debt service. The Corporation should make every effort to lend the additional funds to customers rather than holding these funds in Certificates of Deposit.

To the Senior Management and
The Board of Directors of
Macon Ridge Economic Development Region, Inc.
April 28, 2002
Page 3

Loan Programs

Since the inception of the loan program, Macon Ridge has had an informal policy of working with loan customers, on a case-by-case basis, to help them through financial difficulties. The Corporation should consider making this a formal, written policy. This policy would detail what the Corporation is able to do in working with each customer and how long an account is allowed to stay delinquent before foreclosure proceedings are initiated. In this way, the Corporation could continue to help loan customers when necessary, but the policy would ensure that all such customers are treated equally.

We appreciate the time and courtesy extended to us by you and your staff during the course of the audit and ask that you contact us at any time if you have any questions concerning the above comments and recommendations.

Respectfully,

MARTIN, HARRISON & SMALLWOOD, L.L.P.



Mike M. Martin
Certified Public Accountant



MACON RIDGE ECONOMIC DEVELOPMENT REGION, INC.

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CORRECTIVE ACTION PLAN

DECEMBER 31, 2001

UNITED STATES DEPARTMENT OF AGRICULTURE

Macon Ridge Economic Development Region, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2001.

Name and Address of independent public accounting firm: Martin, Harrison & Smithson, L.L.P.
2808 Kilpatrick Blvd., P. O. Box 4694, Monroe, LA 71211-4694

Audit Period: December 31, 2001

The findings from the December 31, 2001 Management Letter are discussed below. The findings are numbered consistently with the numbers assigned in the letter.

INTERNAL CONTROLS

Findings:

Recommendation: The Corporation should keep several copies of their bylaws readily available in a centralized location, such as the receptionist's desk near the lobby, in the event that they are requested. Also, if a request is received by mail, the Corporation should promptly respond by mail. Any request for financial information could be handled by making copies of the requested information.

Action Taken: We concur with the auditor's recommendations. Copies of the bylaws have been placed in a file at the receptionist's desk so that they will be readily available should anyone request them. We will also respond promptly to any request received by mail and copies of financial information will be made available upon request.

Finding:

Recommendation: Management of the Corporation should assign to an employee of the Corporation the responsibility of monitoring each borrower's compliance with the financial and non-financial covenants of the borrower's respective loan agreement. Furthermore, the Corporation should develop a program for the continual monitoring of both the borrower's compliance and the borrower's compliance with the loan covenants and maintain adequate documentation of each borrower's compliance or lack of compliance with the loan covenants. Specific examples of these findings follow.

Loan Program Covenants - Insurance Policies

The Corporation's loan agreements contain a covenant which requires the borrower to carry property and life insurance for the life of the loan. There were instances where, at the discretion of the loan administrator, the requirement for life insurance was waived. For those special cases, the Corporation should have documentation in the file regarding the reason for this decision and its approval by the loan committee.

Action Taken: We concur with the auditor's recommendations. The Banking/Finance Administrative Assistant will monitor all loans by using tracking software created by the Grants Management System for the revolving loan funds. Macos Ridge currently forces policy all signed (auto) and extended coverage insurance. Life insurance policies will be required to be paid in full for one year at the time of closing the loan. For each year thereafter, when the loan recipient is unable to pay the policy premiums, Macos Ridge will pay the premiums on the loan recipient's behalf and add the cost to the amount of the loan balance. For special cases where the life insurance requirements has been waived, we will have documentation in the file regarding the reason for the waiver of life insurance and its approval by the loan committee.

Loan program Covenants - Financial Statements

The Corporation's loan agreements contain a covenant which requires the borrower to submit a copy of their tax return prepared by a tax professional annually. However, there were instances in the current year where loan recipients did not submit copies of their current tax returns. The Corporation should make a concerted effort to obtain copies of annual tax returns by contacting loan recipients, where necessary, that failure to comply with their loan agreement results in the loan being in default. The Corporation should keep documentation regarding their efforts in obtaining copies and the loan recipients' responses.

Action Taken: We concur with the auditor's recommendations. Currently, a notice requesting copies of annual tax returns is mailed to loan recipients in January. A second reminder is mailed in late May. Copies of these letters and any responses will be kept in the loan recipients' file. In addition, we will require the loan recipients to sign an Internal Revenue Service form as loan closing for authorization to obtain tax returns which will enable Macon Ridge to request the tax return from the IRS if the customer fails to provide the return to Macon Ridge.

Loan Program Commitments - Intermediary Retaining Program

The Corporation is putting some of the involved funds into Certificates of Deposit rather than re-lending the funds. We understand that it is desirable to have a small amount of money reserved for the administration of the programs and the annual loan payment to the USDA. However, at year-end, there was \$460,000 in CD's designated as Intermediary Retaining Program funds, which is much more than necessary for administration and debt service. The Corporation should make every effort to lend the additional funds to customers rather than holding these funds in Certificates of Deposit.

Action Taken: We concur with the auditor's recommendations. We are currently extending these funds. We are putting in Certificates of Deposit on an as-needed basis.

Loan Program

Since the inception of the loan program, Macon Ridge has had an informal policy of working with loan customers, on a case-by-case basis, to help them through financial difficulties. The Corporation should consider making this a formal, written policy. This policy would detail what the Corporation is able to do in working with each customer and how long an account is allowed to stay delinquent before foreclosure proceedings are initiated. In this way, the Corporation could continue to help loan customers when necessary, but the policy would ensure that all such customers are treated equally.

Action Taken: We concur with the auditor's recommendations. We will establish a formal, written policy. All request will be dealt with on a case-by-case basis.

If the Legislative Auditor's Office has questions regarding these plans, please call Robin M. Chapman at (318)717-0850.

Sincerely,



Lloyd S. Spillers, Jr.
President/CEO